



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

GARY A. AMELIO
Executive Director

September 27, 2006

Mr. Ian Dingwall
Chief Accountant
Employee Benefits Security
Administration
United States Department of Labor
200 Constitution Avenue, N.W.
Suite 400
Washington, D.C. 20210

Dear Ian:

This is in response to your letter dated September 21, 2006, transmitting the KPMG LLP report entitled "Employee Benefits Security Administration Review of the Thrift Savings Plan F, C, S, and I Fund Investment Management Operations at Barclays Global Investors, N.A.," dated March 17, 2006.

We are pleased to note that the auditors concluded that BGI has controls in place related to the TSP's F, C, S, and I Fund investments and that you found no errors in the transactions you examined. We are very pleased to note that there are no audit recommendations.

Thank you once again for the constructive approach that the Department of Labor and its contractors are taking in conducting the various audits of the TSP. The information and recommendations that are developed as a result of your reviews are useful to the continued improvement of the Thrift Savings Plan. I also want to thank you for your continuing efforts to close prior year recommendations.

Very truly yours,



Gary A. Amelio

U.S. Department of Labor

Employee Benefits Security Administration
Washington, D.C. 20210



September 21, 2006

Mr. Gary A. Amelio
Executive Director
Federal Retirement Thrift
Investment Board
1250 H Street, N.W., Suite 200
Washington, D.C. 20005

Re: "Employee Benefits Security Administration Review of Thrift
Savings Plan F, C, S, and I Fund Investment Management
Operations at Barclays Global Investors, N.A.," dated March
17, 2006

Dear Gary:

As part of the DOL EBSA TSP Fiduciary Oversight Program, KPMG LLP has performed a full-scope review of Barclays Global Investors, N.A. (BGI) investment management operations as they relate to the TSP's Fixed Income Investment (F) Fund, Common Stock Index Investment (C) Fund, Small Capitalization Stock Index Investment (S) Fund, and International Stock Index Investment (I) Fund. Enclosed for your information are 10 copies of subject report.

Overall, we conclude that BGI has controls in place related to the TSP's F, C, S, and I Fund investments. We noted no errors among transactions selected for testing. Investments and investment management operations comply with FERSA and applicable exemptions. Proxies are voted in accordance with BGI's stated guidelines and with DOL rules and regulations. BGI complies with the provisions of the contract between the Board and BGI. The Agency receives timely transaction reports from BGI for reconciliations to the TSP general ledger.

We currently communicate no audit recommendations. We request no written response. We provide this report to assist you and the Board in carrying out your fiduciary duties. If I can be of further assistance, please contact me at 693-8361 or Mr. William H. Bailey at 693-8372.

Sincerely,


IAN DINGWALL
Chief Accountant

Encl (10)



Employee Benefits Security Administration

**Review of Thrift Savings Plan
F, C, S and I Fund Investment
Management Operations
at
Barclays Global Investors, N.A.**

March 17, 2006

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
EXECUTIVE SUMMARY	i
I. INTRODUCTION	
A. Objective	I.1
B. Scope and Methodology	I.1
C. Organization of Report	I.3
II. OVERVIEW OF INVESTMENT MANAGEMENT OPERATIONS	
A. The Thrift Savings Plan	II.1
B. The Service Providers	II.2
C. The Federal Agencies and Uniformed Services	II.3
D. Investment Management Operations	II.3
E. F, C, S and I Fund Investment Process	II.4
F. Use of Futures and Securities Lending	II.9
G. Trading Costs	II.12
H. Exemptions	II.15
I. Tracking Error	II.16
J. Proxy Voting	II.17
K. Points of Interest	II.19
III. FINDINGS	III.1
<u>Appendices</u>	
A. Key Personnel Interviewed	
B. Key Documentation and Reports Reviewed	
C. Entrance and Exit Conference Attendees	

EXECUTIVE SUMMARY

As a part of the U.S. Department of Labor (DOL) Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we performed a full-scope audit of the Thrift Savings Plan (TSP) Fixed Income Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Investment Fund (S Fund), and the International Stock Index Investment Fund (I Fund) investment management operations at Barclays Global Investors, N.A. (BGI). We performed this engagement from January 30 through March 17, 2006. Our scope was the period from February 1, 2003, through December 31, 2005.

As investment manager, BGI is responsible for ensuring that the processing of F, C, S, and I Fund investments is accurate and timely and for ensuring that the F, C, S, and I Funds under its management closely track the performance of the investment indices selected by the Federal Retirement Thrift Investment Board (Board). BGI was under contract with the Board to manage the F and C Funds through April 30, 2004, and to manage the S and I Funds through December 31, 2004; the Board renewed each contract for an additional two years.

We designed our procedures to comply with the objectives for performance audits as defined by *Government Auditing Standards*, issued by the Government Accountability Office (see Section I.B), rather than to provide absolute assurance for any particular numerical balance(s). The detailed objectives of this engagement are enumerated within Section I.A. Summary objectives include: (1) Determining the overall adequacy of BGI's procedures to ensure that F, C, S, and I Fund investments and related transactions are processed accurately and timely; (2) Determining whether BGI has controls in place to ensure that F, C, S, and I Fund investments and related transactions are processed accurately and timely (3) Reviewing overall compliance with the Federal Employees' Retirement System Act (FERSA) of 1986, as amended, including individual prohibited transaction exemptions (IPTE) 92-11, 2000-30, 2002-30, and 2002-46, and prohibited transaction class exemptions (PTCE) 81-6 and 82-63; (4) Determining if proxies of the C, S, and I Funds are voted in accordance with BGI's stated guidelines and DOL rules and regulations; and (5) Determining if BGI complied with provisions of the contract between the Board and BGI. We accomplished these objectives by updating our understanding of BGI's investment management operations; performing detailed tests of investment, securities lending, cross trading, and proxy voting transactions; and by reviewing prior EBSA reports.

Overall, we conclude that BGI has controls in place related to the TSP's F, C, S, and I Fund investments. We noted no errors among F, C, S, and I Fund transactions selected for detailed

testwork during our engagement. We also note that (1) F, C, S, and I Fund transactions are processed accurately and timely; (2) F, C, S, and I Fund investments and investment management operations comply with the FERSA; (3) Cross-trades comply with IPTE 92-11; (4) Securities lending operations comply with PTCE 81-6, PTCE 82-63, and IPTE 2002-46; (5) BGI complies with the exemption requirements of IPTE 2000-30 regarding investment in Barclays PLC stock or stock of its affiliates; (6) BGI complies with exemption requirements of IPTE 2002-30, regarding the use of the EquiLend platform and ownership of Equilend, LLC; (7) Proxies of the C, S, and I Funds are voted in accordance with BGI's stated guidelines and DOL rules and regulations; (8) BGI complies with the provisions of the contract between the Board and BGI; and (9) The Board's Staff receives timely transaction reports from BGI to facilitate reconciliations to the TSP general ledger.

For our scope period, the F, C, S, and I Funds were invested in certain BGI daily-valued investment funds. The table below presents the TSP fund, the related daily-valued investment fund, the primary index fund in which the daily-valued fund is invested, and the index that each fund tracks.

TSP Fund	Daily-Valued Investment Fund	Primary Index Fund	Tracking Index
F Fund	U.S. Debt Index-E	U.S. Debt Index	Lehman Brothers U.S. Aggregate Bond Index
C Fund	Equity Index-E	Equity Index	Standard & Poor's 500 Composite Stock Price Index
S Fund	Extended Market Index-E	Extended Market Index	Dow Jones Wilshire 4500 Completion Index
I Fund	EAFE Equity Index-E	EAFE Equity Index	MSCI Europe, Australasia, and Far East Index

The investment manager continues to use in-kind contributions, unit exchanges, and cross-trades to reduce transaction costs to the Equity Index Fund, the Extended Market Index Fund, and the EAFE Equity Index Fund, and in-kind contributions and unit exchanges to reduce transaction costs to the U.S. Debt Index Fund. (However, the TSP does not make in-kind contributions to any of these BGI funds.)

The BGI Equity Index, Extended Market Index, and EAFE Equity Index Funds use index futures investments to equitize cash balances and reduce tracking error. The use of futures, a type of

derivative, to improve tracking in index funds, is an accepted industry practice. During our engagement, we considered the investment guidelines enumerated in 5 USC 8438 (b)(2), (3) and (4) to determine if the use of index futures was in compliance with FERSA. We concluded that the present use of futures in the BGI Equity Index, Extended Market Index, and EAFE Equity Index Funds complies with FERSA.

BGI uses securities lending to increase each of its funds' returns. Securities lending collateral is invested in various instruments, some of which may have derivative components. The type of derivatives involved in these collateral investments is limited to synthetic cash investments designed to replicate traditional money market risk characteristics or derivatives used for portfolio management purposes to adjust the average life of the portfolio. Potential investments are subject to the same credit screening process to which BGI subjects its securities lending borrowers. BGI has set limits on the amount of securities lending and collateral investments that it has with any one entity. We concluded that the TSP investment guidelines described above do not prohibit securities lending or resulting collateral investments in derivatives.

There were no open prior year recommendations. Our current engagement communicates no recommendations.

Section I of this report discusses the EBSA's objective, scope and methodology, and report organization. Section II is an overview of investment management and custodian operations relating to the F, C, S, and I Funds. Section III discusses our findings.

Unless otherwise noted, percentages and dollar amounts reported throughout this report are based on internal records of BGI. As such, these amounts have not been subjected to audit procedures. The source data was not tested as part of our engagement because validating such data is beyond the scope of our engagement. Additionally, certain percentages and/or amounts may vary from percentages and/or amounts published by the Board. These differences typically result from the Board's Staff including data applicable to the F, C, S and I Funds that did not originate from the investments in BGI's investment funds.

I. INTRODUCTION

A. Objective

KPMG LLP was contracted to perform services by the U.S. Department of Labor (DOL), Employee Benefits Security Administration (EBSA), under Section 8477(g) of the Federal Employees' Retirement System Act (FERSA) of 1986, as amended. These services included full-scope testing of Barclays Global Investors, N.A. (BGI) investment management operations as related to the Thrift Savings Plan (TSP). The Federal Retirement Thrift Investment Board (Board) has contracted with BGI to manage the investment of F, C, S, and I Fund assets.

The specific objectives of this engagement were to determine that:

- F, C, S, and I Fund investment transactions are processed accurately and timely;
- F, C, S, and I Fund investment funds exist;
- Investments and investment management operations comply with FERSA;
- Cross-trades comply with Individual Prohibited Transaction Exemption (IPTE) 92-11;
- Securities lending operations comply with Prohibited Transaction Class Exemptions (PTCE) 81-6 and 82-63 and IPTE 2002-46;
- BGI complies with exemption requirements of IPTE 2000-30 regarding investment in Barclays PLC stock or stock of its affiliates;
- BGI complies with exemption requirements of IPTE 2002-30, regarding the use of the EquiLend platform and ownership of EquiLend, LLC;
- Proxies of the C, S, and I Funds are voted in accordance with BGI's stated guidelines and DOL rules and regulations;
- BGI complies with provisions of the contract between the Board and BGI; and
- The Agency receives timely transaction reports from BGI to facilitate reconciliations to the TSP general ledger.

B. Scope and Methodology

We performed our engagement at BGI in accordance with the EBSA TSP Fiduciary Oversight Program, which is designed to comply with *Government Auditing Standards* issued by the Government Accountability Office. In particular, we designed our engagement to conform with a performance audit defined by Section 2.09 of the *Government Auditing Standards*, as "an objective and systematic examination of evidence to provide an independent assessment of the

performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues....Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or requirements; and objectives related to providing prospective analyses, guidance, or summary information.” Our engagement consisted of four phases: (1) Planning and training, (2) Arranging for the engagement with the Board’s Staff and BGI, (3) Testing and interviews and (4) Report writing.

The planning and training phase was designed to ensure that team members understood the TSP and the investment management operations at BGI. Arranging the engagement required contacting the Board’s Staff and BGI and agreeing on the timing of full-scope testing procedures.

Testing and interviews included the following activities:

- Interviews with appropriate BGI, Board Staff, and DOL personnel and with the independent auditors of the collective trust funds (Appendix A);
- Reviews of key reports and related documentation (Appendix B);
- Observations and limited tests of BGI policies, standards, and procedures; and
- DOL exemption compliance tests over cross-trades and securities lending transactions.

The TSP engagement procedures performed included testing non-statistical samples of the following:

- Investment orders placed with BGI to determine the accuracy and timeliness of processing;
- Management fee invoices submitted to the Board’s Staff by BGI to determine compliance with the service contracts;
- Cross-trade transactions to determine if BGI complied with the terms of the DOL cross-trading exemption IPTE 92-11;
- Securities lending transactions to determine if BGI complied with the terms of the DOL securities lending exemptions PTCEs 81-6 and 82-63 and IPTE 2002-46;
- Proxy votes to determine if BGI complied with its proxy voting guidelines;
- In-kind transactions to determine that they did not negatively impact the composition of the investment fund; and

- Transaction, Asset, and Trust Statements to determine if BGI timely submits them to the Board's Staff to facilitate reconciliations to the TSP general ledger.

We performed this testing using judgmentally, rather than statistically, determined sample sizes. Therefore, any reported error rate and resulting conclusions are attributable only to the sample population, rather than a statistical error rate inferable to all transactions made and proxies voted during our engagement period.

The report writing phase entailed drafting a fiduciary compliance report, providing a copy of the draft to the Board's Staff for review, and preparing and issuing the final report.

We excluded from this engagement investment procedures performed by the TSP Record Keeper, U.S. Department of Treasury, and the Board's Staff. These procedures are addressed separately within the overall EBSA TSP Fiduciary Oversight Program.

C. Organization of Report

Section II presents an overview of the TSP, the Service Providers, the Federal Agencies and Uniformed Services, and investment management operations at BGI. Section III presents our findings.

II. OVERVIEW OF INVESTMENT MANAGEMENT OPERATIONS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement Systems Act (FERSA) of 1986, as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS). The TSP provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions April 1, 1987, and as of December 31, 2005, had fund balances totaling approximately \$173.28 billion and approximately 3.6 million participants.¹

The FERSA also established the Federal Retirement Thrift Investment Board (Board) and the position of Executive Director. The Executive Director and the members of the Board are named TSP fiduciaries. The Executive Director manages the TSP for its participants and beneficiaries. The Board's Staff is responsible for administering TSP operations.

The TSP is required to offer five investment options: the Government Securities Investment Fund (G Fund), the Fixed Income Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Fund (S Fund), and the International Stock Index Investment Fund (I Fund). FERSA requires:

- G Fund contributions to be invested in nonmarketable U.S. Treasury securities specially issued to the TSP. These securities earn interest at a rate that is equal, by law, to the average of market yields on U.S. Treasury marketable securities outstanding with 4 or more years to maturity;
- F Fund contributions to be invested in insurance contracts, certificates of deposit, or other fixed income securities selected by a qualified professional asset manager;
- C Fund contributions to be invested in a stock fund designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the U.S. equity markets;

¹ Source: Federal Retirement Thrift Investment Board

- S Fund contributions to be invested in a stock fund designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the U.S. equity markets excluding the common stocks included in the C Fund; and
- I Fund contributions to be invested in a stock fund designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the international equity markets excluding the U.S. equity markets.

Additionally, the TSP offers the L Funds, which are portfolio funds comprised of the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to five different time horizons.

B. The Service Providers

Several organizations provide TSP services for the Board under a Memorandum of Understanding (MOU) or contract. These organizations include, but are not limited to, the following: (1) SI International, which provides maintenance and operations support for the TSP recordkeeping system (TSP system) and data-entry services, and (2) the U.S. Department of Agriculture (USDA) National Finance Center (NFC), which provides certain recordkeeping services².

Federal agency personnel offices and uniformed services are responsible for communicating participant contribution elections to agency/service payroll offices. With this information, the payroll offices calculate employee and agency contributions and submit to the TSP system the amount of money to be allocated to each participant's account. The TSP Record Keeper accumulates transactions resulting in increases or decreases in the F, C, S, and I Fund investments. The Board's Office of Accounting certifies each day's investment and executes wire transfers to the investment manager through the U.S. Treasury's Secure Payment System.

² The Agency has recently granted a sole-source contract to SI International to assume duties held by NFC employees as of June 9, 2006.

C. The Federal Agencies and Uniformed Services

Federal agency payroll/personnel offices and uniformed services are responsible for providing timely and accurate participant account information to the TSP through the TSP system. Thus, these offices and services provide, receive, and process participant contributions election forms. In addition, the Federal agencies and uniformed services process contribution withholdings and loan repayment deductions from participants' pay, compute the agency automatic (1 percent) and matching contributions when appropriate, submit employment codes and dates when participants leave Government service, and ensure that employee contributions are not processed for participants receiving financial hardship in-service withdrawals during the six month non-contribution period. Information for all participants is submitted to the TSP each payroll period using one of the following methods.

- Storage media (e.g., cartridge, tape, or diskette);
- File Transfer Protocol (FTP);
- Electronic submission (web/Internet, or "Direct:Connect"); or
- Manual form (e.g., Form TSP-5).

D. Investment Management Operations

The Board's Staff contracted with BGI to manage assets for the F, C, S, and I Funds. The TSP has more assets under management by BGI than any other defined contribution plan.

As investment manager, BGI is responsible for ensuring that:

- Investments and investment management operations comply with FERSA and provisions of the contract between the Board and BGI;
- Investment management and custodian operations safeguard F, C, S, and I Fund investments;
- F, C, S and I Funds investment transactions are processed accurately and timely;
- Proxies related to the C, S, and I Funds' investments are voted in accordance with BGI's stated guidelines and DOL rules and regulations;
- Cross-trades, securities lending, and Barclays PLC (or affiliate) stock transactions are executed in accordance with the terms of the applicable DOL exemptions; and
- The Board's Staff receives timely transaction reports to facilitate reconciliations to the TSP general ledger.

E. The F, C, S, and I Fund Investment Process

Fund Overviews

F Fund assets are primarily invested in the BGI's U.S. Debt Index Fund-E, (BGI's daily-valued investment fund that is invested primarily in BGI's U.S. Debt Index Fund), which is designed to track the performance of the Lehman Brothers U.S. Aggregate Bond Index (LBA Bond Index). Lehman Brothers designed the LBA Bond Index to provide a representative measure of the U.S. fixed income markets.

Because the LBA Bond Index is comprised of many securities, it is not feasible for the BGI's U.S. Debt Index Fund to hold every security. Consequently, BGI uses mathematical models to select a representative sample of the U.S. government, foreign government, corporate, taxable municipal, mortgage-backed, commercial mortgage-backed, and asset-backed securities included in the LBA Bond Index. As illustrated in *Exhibit II-1*, the portfolio profile of the U.S. Debt Index Fund (in dollar terms), as of December 31, 2005, closely represented the LBA Bond Index:

Exhibit II-1

Sector Breakdown	BGI's U.S. Debt Index Fund	LBA's Bond Index
U.S. Government Securities	36.5%	36.4%
Foreign Government Securities	3.7%	3.7%
Corporate Credit	19.4%	19.5%
Taxable Municipal	0.2%	0.2%
Mortgage-backed Securities	34.9%	34.9%
Commercial Mortgage-backed Securities	4.0%	4.0%
Asset-backed Securities	1.27%	1.27%

Source: BGI U.S. Debt Index Profile as of December 31, 2005

Although the U.S. Debt Index Fund-E's investment policy allows the use of futures, the Fund does not currently use derivatives to improve tracking or provide liquidity. Accordingly, it does not hold any derivative-type investments other than those discussed in Securities Lending, below.

C Fund assets are primarily invested in BGI's Equity Index Fund-E (BGI's daily-valued investment fund that is invested primarily in BGI's Equity Index Fund), which is designed to track the performance of the Standard and Poor's 500 Composite Stock Price Index (S&P 500 Index). Standard & Poor's Corporation designed the S&P 500 Index to provide a representative measure of U.S. stock market performance. It consists of 500 common stocks, representing more than 100 separate industries, which trade primarily on the New York Stock Exchange.

The Equity Index Fund and the Equity Index Fund-E invest in S&P 500 Index futures, a type of derivative, to equitize cash balances and reduce tracking error and, for the Equity Index Fund-E, to provide liquidity. (See further discussion below under subsection Use of Futures in BGI's Index Funds in Section F.)

S Fund assets are primarily invested in BGI's Extended Market Index Fund-E (BGI's daily-valued investment fund that is primarily invested in BGI's Extended Market Index Fund), which tracks the performance of the Wilshire 4500 Completion Index. The Wilshire 4500 Completion Index represents approximately 21 percent of the market value of the U.S. stock markets. It consists of the stocks that are actively traded in the U.S. stock markets, except those in the S&P 500 Index.

An estimated 6,000 stock issues are included in the U.S. stock market, excluding the 500 issues that are represented in the S&P 500 Index. The BGI Extended Market Fund holds a majority of these non-S&P 500 stocks; however, it is not practicable to hold all such stocks. Therefore, the BGI Extended Market Index Fund is managed as a model-driven fund with the objective of replicating the Wilshire 4500 Completion Index. The BGI Extended Market Index Fund and Extended Market Index Fund-E also invest in related index futures to improve tracking and, for the Extended Market Index Fund-E, liquidity. (See further discussion below under subsection Use of Futures in BGI's Index Funds, in Section F.)

The Wilshire 4500 Completion Index returns tend to fluctuate more than S&P 500 Index returns because the prices of the stocks of the smaller companies in the Wilshire 4500 Completion Index tend to react more strongly (positively and negatively) to changes in the economy. Therefore, S Fund investment returns are expected to be more volatile than C Fund investment returns.

I Fund assets are primarily invested in BGI's EAFE Equity Index Fund-E (BGI's daily-valued investment fund that is invested primarily in BGI's EAFE Equity Index Fund), a commingled fund that tracks the MSCI Europe, Australasia, and Far East (EAFE) Index. The EAFE Index

consists of the stocks of companies in 21 countries representing approximately 40 percent of the value of the world stock markets.

BGI's EAFE Index Equity Fund holds the stocks of all 21 countries included in the EAFE Index. The BGI EAFE Equity Index Fund and the EAFE Equity Index Fund-E also invest in related index futures to improve tracking and, for the EAFE Equity Index Fund-E, to provide liquidity. (See further discussion below under subsection Use of Futures in BGI's Index Funds, in Section F.)

The primary source of earnings for the I Fund is the net changes in the prices of stocks in BGI's EAFE Equity Index Fund, although at times, net foreign currency changes relative to the U.S. dollar can be a greater component of earnings than stock price gains or losses. Dividend income and securities lending income are also important sources of earnings. The EAFE Index is broadly diversified among countries and industries, so that the effect of poor performance in one stock market or group of companies may be reduced. EAFE Index returns tend to fluctuate more than S&P 500 Index returns; therefore, I Fund investment returns are expected to be more volatile in the short term than C Fund investment returns.

Fund Percentages Owned by TSP

TSP assets represent significant percentages of the investments in the BGI collective trust funds in which they are invested. As noted earlier in this report, the TSP assets are invested in daily-valued investment funds managed by BGI. The BGI fund designator "E" identifies the fund as a daily-valued fund, meaning it is open for contributions and redemptions on a daily basis. The underlying investments of these "E" designated funds are primarily shares in funds that are not open for contributions and redemptions on a daily basis and in which all of the physical securities transactions occur. The "E" designated funds also hold a small amount of liquid investments, including futures, in order to accommodate daily investment transactions.

The percent of TSP assets of the total investments in the related BGI collective trust funds (i.e., "E" Funds), the percent of "E" Fund holdings of the underlying BGI funds in which the actual security trading occurred, and the percent of TSP assets of the underlying BGI funds as of December 31, 2004, were as follows:

Fund	TSP Assets as a % of "E" Fund	"E" Fund Holdings as a % of Underlying Fund	TSP Assets as a % of Underlying Fund
U.S. Debt Index	88.60%	41.73%	36.97%
Equity Index	76.46%	67.00%	51.23%
Extended Market Index	86.77%	75.36%	65.39%
EAFE Index	99.60%	16.72%	16.66%

Source: BGI Security Cross Reference Reports

Investment Process Overview

By 2:00 p.m. Eastern time on each trade date, the Board's Staff notifies BGI of its investment order for the TSP funds. BGI's Client Order Management (COM) is responsible for the investment order process, which is facilitated through BGI's Order Management System. Since late 2004, the Board's Staff submits its investment orders via an electronic order interface to the Order Management System for each of the four TSP accounts. Once the Board's Staff determines the investment amounts for each of the TSP funds, it is entered into the Asset Manager System (AMS) and transmitted via electronic order interface to the Order Management System. Upon receipt of the electronic order, an automated electronic confirmation is generated and sent back to AMS for review by the Board's Staff.

For 2003 and most of 2004, the Board's Staff placed its orders with BGI via telephone or fax. Upon receipt of the investment order from the Board's Staff, a COM staff person entered the investment order into the Order Management System. A confirmation was generated denoting the investment order for each of the TSP accounts and was faxed to the Board's Staff for review and approval. The Board's Staff faxed the confirmation back to BGI, and a different COM staff person ensured that the information received agreed with the information per the Order Management System. The COM staff also ensured that the confirmation was signed by an authorized Board official by comparing the signatures on the confirmation to those on the "Specimen Signature Form," which lists the individuals on the Board's Staff who were authorized to provide verbal/written instructions on behalf of the TSP and their respective signatures.

Once the order had been received and confirmed, the Order Management System produced the "Core Funds Report," listing all the contributions and withdrawals requested by BGI's clients. Portfolio managers then prepared security level trade lists for each fund. The lists for equity securities were then submitted to the FOX System, BGI's centralized cross-trading record keeping system.

The FOX System identifies cross-trading opportunities among funds managed by BGI. Cross-trades for the Equity Index Fund, Extended Market Index Fund, and EAFE Equity Index Fund occur when another fund or account maintained by BGI is a buyer or a seller of an equity security or securities for which one of these three funds is a seller or a buyer, respectively. (See Trading Costs in Section G below.) The FOX System only authorizes cross-trades qualified under individual prohibited transaction exception (IPTE) 92-11. The residual trade lists are given to the BGI Trading Group to execute. For fixed income trades, BGI's Trading Operations Department verifies the trades with executing brokers and uses BGI's Aladdin System to transmit the information to Investors Bank and Trust Company (IBT) to record the accounting and custodial information. (See BGI's Outsourcing of its Custodial and Fund Accounting Functions in Section K below.) For equity trades, an interface occurs between systems used by BGI's Trading Group and IBT's system. IBT's Trading Operations Group verifies the equity trades with executing brokers and sends the information electronically to the IBT's systems.

TSP trades settle one business day after the trade date. Before settlement of investment purchases, the Board's accounting staff authorizes the TSP Record Keeper to wire transfer the F, C, S, and I Fund net contributions to BGI on the settlement date. (In the case of a redemption, the money is wire transferred from BGI to the TSP's Treasury account.) The BGI Client Reporting Group sends the Board's investment staff transaction reports confirming the trades. These reports include the Board's trading costs, if any. BGI's trading costs are charged on a pro rata basis to the plans that make a contribution to or withdrawal from BGI's U.S. Debt Index, U.S. Debt Index-E, Equity Index, Equity Index-E, Extended Market Index, Extended Market Index-E, EAFE Equity Index Funds, or EAFE Equity Index-E Fund.

The BGI Client Reporting Group also sends to the Board's Office of Benefits and Investments monthly transaction reports for the TSP investments in the various BGI funds. These reports list the details of all TSP transactions during the month as well as the market and book values of the funds at the end of the month.

Management Fees

The BGI Financial Reporting Group bills the Board for management fees based on rates established in the investment management contracts between the Board and BGI. BGI bills the Board on a monthly basis. These management fees are based on the average market values of the funds computed by dividing the prior month-end and current month-end balances by two. For the purposes of the management fee calculation, the month-end trade is not taken into account when calculating the market value as of the end of that month.

F. Use of Futures and Securities Lending

Use of Futures in BGI's Index Funds

In October 1993, BGI's Equity Index Fund began to invest in S&P 500 Index futures to reduce the tracking error, which resulted from the dividend reinvestment assumptions inherent in the S&P 500 Index. The S&P Index treats dividends as if they were reinvested on the ex-dividend date³. Dividends are not paid to investors until after that date. In addition, BGI's Equity Index Fund-E uses futures contracts to improve the fund's liquidity. The use of futures, one type of derivative, to improve tracking in index funds is common. S&P 500 Index futures are widely traded and, therefore, have substantial liquidity. For the Equity Index Fund and Equity Index Fund-E, BGI invests only in S&P 500 Index futures that are freely traded on major futures exchanges; therefore, there is little to no counter-party credit risk with these transactions. At December 31, 2005, the S&P 500 Index futures constituted 0.21 percent of the value of BGI's Equity Index Fund and 0.33 percent of the value of BGI's Equity Index Fund-E.

BGI's Extended Market Index Fund also invests in index futures to improve tracking against the Wilshire 4500 Completion Index. In addition, BGI's Extended Market Index Fund-E uses futures contracts to improve the fund's liquidity. While no single futures market exactly matches the components of the Wilshire 4500 Completion Index, BGI's Extended Market Index Fund and Extended Market Index Fund-E currently use Russell 2000 Index futures and S&P 400 Index futures, both widely traded and with substantial liquidity, to improve tracking. At December 31,

³ The ex-dividend date is the day a stock begins to trade without its dividend and represents the cut-off day for earning the dividend. Those investors who purchased the stock by the end of the day prior to ex-dividend date would be entitled to the dividend, while those investors who purchased the stock on or after the ex-dividend date are not entitled to the dividend.

2005, index futures constituted 1.11 percent of the value of BGI's Extended Market Index Fund and 2.14 percent of the value of BGI's Extended Market Index Fund-E.

BGI's EAFE Equity Index Fund-E, EAFE Equity Index Fund and its underlying funds invest in various forward contracts relating to foreign currency and futures contracts relating to foreign stock exchanges (e.g., Yen and Pound forwards, Nikkei Index futures, and Euro Index futures). However, futures markets do not exist for all 21 country stock markets represented in the EAFE Index. Therefore, BGI only invests in selected futures (i.e., that have been approved by U.S. regulators for investment by U.S. persons and that have substantial liquidity) to improve tracking. At December 31, 2005, index futures constituted 0.29 percent of the value of BGI's EAFE Equity Index Fund and 1.95 percent of BGI's EAFE Equity Index Fund-E.

As described below in the section on Securities Lending, since 1991, BGI has been investing cash collateral obtained from its securities lending activities in investments that may have derivative components.

Securities Lending

Brokers occasionally borrow specified securities to complete a trade that would otherwise fail or to short sell (i.e., sell with the expectation of buying the securities to settle the trade at a later time at a lower price). BGI is responsible for negotiating securities lending transactions for its funds within its established guidelines.

BGI has implemented procedures to limit the risk of default on securities loaned. Potential borrowers undergo a credit screening process and must provide collateral equal to 102 percent of the market value of the U.S. securities loaned and 105 percent of the market value of international securities loaned. The collateral is marked-to-market daily so that the collateral is maintained at a minimum of 100 percent and 102 percent of the market value of the loaned security to non-affiliates and affiliates, respectively. BGI requires collateral in the form of cash, U.S. government obligations, or irrevocable letters of credit from BGI-approved institutions. Collateral is maintained on a pooled basis to cover securities on loan from the various managed funds.

BGI invests securities lending collateral in various investments, some of which may have derivative components. The type of derivatives involved in these collateral investments is limited to synthetic cash investments designed to replicate traditional money market risk

characteristics or derivatives used for portfolio management purposes to adjust the average life of the portfolio. To further limit the risk involved with these transactions, BGI subjects potential counter parties to the same credit screening process to which BGI subjects its security lending borrowers. BGI has set limits on the amount of securities lending and collateral investments that it has with any one entity. The following table shows the percent of the securities in each Fund that were on loan to approved brokers as of December 31, 2004 and 2003.

Exhibit II-3

Fund	As of December 31, 2004	As of December 31, 2003
Equity Index Fund	6%	6%
U.S. Debt Index Fund	28%	26%
Extended Equity Index Fund	26%	21%
EAFE Equity Index Fund	23%	28%

Lending opportunities are allocated to a particular BGI fund through a calculation performed by BGI's Global Loan Manager system at the time of the loan. The system evaluates each fund's amount on loan as a percentage of its lendable market value. For securities held by more than one fund, the fund with the lowest loan percentage will be assigned the lending opportunity.

BGI charges borrowers a negotiated security lending fee. The lending funds receive 50% of the gross revenue from the securities lending program, and BGI retains the remainder. In its current agreement with the TSP, BGI rebates a portion of its securities lending income to the TSP. The chart below presents the effect of the use of securities lending income on BGI's Funds applicable to the TSP for the 12-month period ended December 31, 2004, and the proportion of securities lending income to net investment income for the fiscal years ended December 31, 2004 and 2003, respectively.⁴

⁴ Percentages are based on amounts reported in the Barclays Global Investors, Collective Trust Funds for Employee Benefit Trusts, Report on Audits of Financial Statements for the years ended December 31, 2004 and 2003, audited by PricewaterhouseCoopers LLP.

Fund	Effect of Securities Lending on Fund Monthly Returns	Securities Lending Income to Net Investment Income	
	CY 2004	CY 2004	CY 2003
U.S. Debt Index Fund	.0015% to .0032%	0.6%	0.5%
Equity Index Fund	.0003% to .0008%	0.3%	0.4%
Extended Market Index Fund	.0031% to .0051%	3.4%	3.6%
EAFE Equity Index Fund	.0032% to .0081%	2.4%	3.0%

A greater proportion of securities lending income to net investment income is expected for the Extended and EAFE Equity Index Funds because they have relatively higher securities lending activity.

The BGI Internal Audit Group conducts annual reviews, and the BGI Compliance Group conducts periodic reviews of securities lending compliance with established internal controls, including the requirements of prohibited transaction class exceptions (PTCEs) 81-6 and 82-63 and IPTE 2002-46. The BGI Internal Audit Group's most recent securities lending report, issued December 13, 2004, included one low priority recommendation. Neither the BGI Internal Audit Group's reports nor the BGI Compliance Group's periodic reporting noted any material compliance exceptions relating to securities lending policies during the scope of our engagement.

G. Trading Costs

Trading costs in BGI's Equity Index, Extended Market Index, and EAFE Equity Index Funds generally consist of negotiated commissions on common stock purchases and sales or the buying and selling of futures contracts. Trading costs in BGI's U.S. Debt Index Fund consist of the spreads between dealer's bid and ask prices on debt securities purchased and sold. The trading costs are shared proportionately by the plans causing the trade (i.e., those with contributions if the fund is in a net buy position or those with withdrawals if the fund is in a net sell position). These trading costs do not contribute to the tracking error of the various funds.

The costs associated with rebalancing the U.S. Debt Index, Equity Index, Extended Market Index, and EAFE Equity Index Funds are borne by the respective funds and are, therefore, shared

by all fund participants. To minimize trading costs, BGI cross-trades, in the case of equities only, among eligible BGI managed funds before trading in the external market.

Transaction costs are also decreased to the extent that cash from client contributions are available for cash redemptions on a fund opening day (i.e., a "unit exchange"), or when a client chooses to contribute securities to a fund (i.e., an "in-kind contribution").

Unit Exchanges

The terms "unit exchange" or "unit cross" are used to describe the process in which cash received by a fund from client contributions on a given day permits the fund to provide cash to withdrawing clients on that day. To the extent that the amounts of contributions and withdrawals coincide, it is not necessary for the fund to buy or sell securities because of client contributions and withdrawals. With a "unit exchange," securities are not actually transferred or exchanged among clients. The term "unit" simply refers to an entry in BGI's books and records indicating a client's interest in a collective fund.

In-Kind Contributions

An in-kind contribution is the standard process by which a client obtains an interest in a collective investment fund through the contribution of securities rather than cash, thus minimizing transaction costs. When a client authorizes BGI to restructure all or a portion of its portfolio into an index or model driven fund, BGI may use in-kind contributions.

When a client requests that BGI accept an in-kind contribution into a BGI collective fund, BGI's Transition Services Group, in conjunction with the portfolio managers, analyzes the client's existing portfolio to assess if any securities qualify to be contributed in-kind into the fund. The Transition Services Group analyzes which securities in the client's existing portfolio match the fund's index and how many shares of any given security can be contributed. The portfolio manager confirms whether the shares can be accepted while remaining within the normal operating guidelines of the fund. (For example, it is BGI's policy not to accept a security into the Equity Index Fund if it would cause that stock's holdings to be misweighted in the portfolio by more than 1 basis point in comparison to that stock's weighting in the S&P 500 Index.) Therefore, the extent of in-kind contributions is considered in determining other trades necessary to ensure that the portfolio is tracking the appropriate index, to the extent practicable.

Following written instructions from the client, those securities that fit these criteria are then accepted into the collective index fund at the closing price on the day of contribution. BGI executes the in-kind contributions using the same pricing mechanisms as used to price cross-trades and to value the fund. This method eliminates discretionary pricing that may benefit either the client restructure account or collective fund. The client receives units in the collective fund corresponding to the aggregate value of the securities contributed. The TSP does not make in-kind contributions to any BGI Fund.

BGI has written operating guidelines for its restructuring process. The goal of restructuring is to modify a portfolio while minimizing transaction costs to the client through transacting within a period dictated by the client. In-kind contributions and cross-trading may be used to minimize transaction costs where such activity is authorized by the client.

Cross-Trades

A cross-trade is the purchase or sale of securities between two accounts or funds managed by, but not necessarily under the custody of, BGI or its affiliates. BGI uses cross-trades among eligible funds and accounts, where appropriate, to reduce transaction costs and facilitate achieving client or fund investment objectives. BGI is obligated by its fiduciary responsibilities to ensure that no cross-trading activity has resulted in creating an advantage to any client or fund relative to any other client or fund. By internally matching BGI's sell orders for a particular day with its buy orders for the same day, both funds save by avoiding transaction costs.

For BGI, as a manager of index and model-driven funds, cross-trading is a method of executing a securities transaction that the portfolio manager has already included on a trade list and that would occur even if cross-trades were not permitted. After a separate decision has been made that the fund will buy or sell the security, BGI will trade that security through a cross-trade if crossing opportunities are available. BGI does not exercise subjective or discretionary investment management decisions regarding whether to buy or sell a security. Therefore, cross-trading is a cost-efficient mechanism for implementing prior decisions to buy or sell.

DOL's position is that cross-trading transactions result in violations of one or more provisions of Part 4 of Title I of ERISA. FERSA contains similar restrictions in section 8477(c)(2)(B). The basis for this position is that by representing the buyer on one side and the seller on the other in a

cross-trade, a fiduciary acts on behalf of parties that have adverse interests to each other.⁵ However, DOL has issued exemptions allowing certain passive investment managers of plans to cross-trade securities. BGI has such an exception with IPTE 92-11. Cross-trading is available in BGI's Equity Index, Extended Market Index, and EAFE Equity Index Funds, but not BGI's U.S. Debt Index Fund. In 2002, DOL issued prohibited class transaction exemption 2002-12, allowing, among other provisions, the cross trading of fixed income (e.g., U.S. Debt Index Fund) securities; however, BGI decided to continue to use IPTE 92-11 during our scope period.

H. Exemptions

BGI first obtained the use of IPTE 87-51 in 1987, as a division of Wells Fargo Bank. IPTE 87-51 allowed BGI to cross-trade index and model-driven accounts and funds and certain client restructure accounts. In 1992, DOL replaced this exemption with IPTE 92-11. BGI, then a separate trust company partially owned by Wells Fargo & Co. and named "Wells Fargo Institutional Trust Company, N.A.," was specifically named as a party to the exemption. BGI subsequently applied for retroactive and prospective exemption for the acquisition, holding, and disposition of Barclays PLC stock. On June 13, 2000, the DOL EBSA granted BGI the requested exemption (IPTE 2000-30) for the acquisition, holding, and disposition of Barclays PLC stock (or stock of its affiliates), subject to certain conditions such as limiting the trading volume and total holdings of Barclays PLC stock (or stock of its affiliates), requiring independent authorization of investment in funds holding such stock, and maintaining related records.

In 2001, BGI requested an individual exemption, which would allow BGI to purchase securities during the existence of an underwriting or selling syndicate where a U.S. affiliate of Barclays PLC is a member of such syndicate for the securities. In 2001, BGI received individual exemption, IPTE 2001-24E, which is only currently used by BGI's Fixed Income Group for the purchase of new issues of fixed income securities.

In 2002, BGI received an individual exemption, IPTE 2002-46, from DOL allowing BGI's index and model-driven investment funds to lend securities to affiliates of BGI. BGI, with a number of other financial services firms, also received IPTE 2002-30 related to Equilend Holdings LLC (Equilend). Equilend provides a common electronic platform for negotiating securities lending

⁵ Federal Register, Volume 63, Number 64, Notices -- Department of Labor -- Pension and Welfare Benefits Administration, Cross-Trades of Securities by Investment Managers, 63 FR 13696

transactions, identifying borrowing opportunities with pre-approved borrowers, negotiating specific loans, maintaining appropriate records, marking to market all outstanding loans, ensuring collateral maintenance, and monitoring delivery and control of collateral. IPTE 2002-30 permits BGI, as an equity owner of Equilend, to use the Equilend Platform. BGI uses this individual exemption for its securities lending program.

BGI also uses prohibited transaction class exemptions (PTCE) 81-6 and 82-62 for its securities lending program. PTCE 81-6 allows BGI to lend securities to various banks and broker-dealers. These banks and broker dealers are typically "parties in interest" under ERISA with respect to the client plans because they provide services to vast numbers of plans. This class exemption permits the lending transactions to occur under certain conditions without violating the provisions of ERISA. PTCE 82-63 permits BGI to receive compensation in connection with its securities lending services if necessary conditions are met.

I. Tracking Error

From January 2004 through December 2005, BGI's U.S. Debt Index, Equity Index, Extended Market Index, and EAFE Equity Index Funds were designed to replicate the performance of the LBA Bond; S&P 500; Wilshire 4500 Completion; and the EAFE Stock Indices, respectively.

From January 2004 through December 2005, the performance of the U.S. Debt Index Fund-E, as measured by BGI, differed from that of the LBA Bond Index by no more than 2 basis points in any month. (This difference is known as "tracking error.") Tracking error in the U.S. Debt Index Fund-E occurs primarily as a result of the methodology used to select a representative sample of securities for purchase by this collective trust fund. Additionally, positive tracking error can occur as a result of securities lending income received by the U.S. Debt Index Fund-E. The U.S. Debt Index Fund-E outperformed the Lehman Brothers U.S. Aggregate Bond Index, as measured by BGI, by 4 and 3 basis points for the 12 months ending December 31, 2005, and 2004, respectively.

From January 2004 through December 2005, the performance of the S&P 500 Index differed from the Equity Index Fund-E, as measured by BGI, by no more than 2 basis points in any month. This tracking error is primarily the result of corporate actions (e.g., mergers) and index change trades as well as securities lending activities. The Equity Index Fund-E outperformed the S&P 500 Index, as measured by BGI, by 5 and 4 basis points for the 12 months ending December 31, 2005, and 2004, respectively.

From January 2004 through December 2005, the performance of the Extended Equity Index Fund-E, as measured by BGI, differed from that of the Wilshire 4500 Completion Index by no more than 13 basis points in any month. Because BGI only holds approximately 3,300 names out of the 4,500 in the Wilshire 4500 Completion Index, tracking error in the Extended Market Index Fund-E occurs primarily because of the methodology used to select representative securities for purchase by this collective trust fund. Tracking error also occurs as a result of securities lending activities. The Extended Equity Index Fund-E outperformed the Wilshire 4500 Completion Index, as measured by the BGI, by 49 and 27 basis points for the 12 months ending December 31, 2005, and 2004, respectively.

From January 2004 through December 2005, the performance of the EAFE Equity Index Fund-E, as measured by BGI, differed from that of the MSCI EAFE Index by no more than 74 basis points in any month. This tracking error occurred as a result of the EAFE Equity Index Fund-E having to be fair valued on certain days⁶. Tracking error can also occur as a result of securities lending revenue and favorable tax advantage treatment for securities and unequitized cash. The EAFE Equity Index Fund-E outperformed the MSCI EAFE Index, as measured by BGI, by 24 basis points for the 12 months ending December 31, 2005, and under-performed the MSCI EAFE Index, as measured by BGI by 12 basis points for the 12 months ending December 31, 2004.

J. Proxy Voting

In accordance with FERSA Section 8438 (g), "the Board, other Government agencies, the Executive Director, an employee, a Member, a former employee and a former Member may not exercise voting rights associated with the ownership of securities by the Thrift Savings Fund." The contract between the Board and BGI delegates the authority to vote the Thrift Savings Fund's proxies to BGI. BGI is required to vote the Equity Index, Extended Market Index, and EAFE Equity Index Funds' proxies in the best interests of the TSP participants and beneficiaries.

Although the Board does not vote proxies directly, its fiduciary responsibilities include monitoring BGI's voting of the Equity Index, Extended Market Index, and EAFE Equity Index Funds' proxies. The Board's Staff has reviewed BGI's written guidelines for adherence to

⁶ BGI fair values the EAFE Index Fund-E on days in which there is a significant market move after the close of the non-U.S. markets but prior to the time as of which the Fund's unit value is calculated (4:00 EST). Due to this timing difference, a temporary tracking error can occur when the EAFE Index Fund-E has to be fair valued at the end of a month. However, the tracking error will typically self-correct in the subsequent month.

appropriate fiduciary standards. To facilitate the Board's Staff monitoring of BGI's proxy voting, BGI provides the Board's Staff with (1) its written proxy voting guidelines when they are revised or updated, and (2) monthly reports of how it has voted each proxy issue for the applicable funds. The Board's Staff reviews the proxy voting policy and the quarterly independent reports by Institutional Shareholder Services (ISS), a proxy voting analysis firm, to ensure that BGI has voted the proxies according to BGI's written guidelines, and reports results quarterly at a regularly scheduled meeting for Board members.

BGI uses the proxy voting clearinghouse services of Automated Data Processing (ADP) to collect the various domestic proxy voting materials. To facilitate the proxy voting process, BGI downloads its securities holdings to ADP daily. ADP provides BGI with a superproxy representing all BGI holdings of a certain company's common stock. This procedure ensures that all BGI collective trust funds vote the same way on a proxy issue.

ADP submits the superproxies to BGI, which reconciles the position holdings per the ballots to its records. Ballots are then sorted into routine and non-routine matters. A proxy voting assistant votes on routine matters according to BGI's proxy voting guidelines. The proxy analyst votes non-routine matters with consideration for the economic benefit to fund participants. Currently, BGI returns its proxy votes to ADP using an overnight express mail service.

For non-U.S. securities (e.g., EAFE Equity Index Fund holdings), BGI currently issues proxy votes via ISS, acting as an independent voting agent. Ballots issues are identified as routine or country-specific matters and are voted in accordance with BGI's proxy guidelines for non-U.S. securities. BGI performs periodic reviews of the proxy voting by ISS for its non-U.S. securities to ensure that BGI has voted the proxies according to its written guidelines

On July 29, 1994, the DOL issued 29 CFR Part 2509.94-2, *Interpretive Bulletin relating to written statements of investment policy including proxy voting policy and guidelines* (IB 94-2). This document summarizes the DOL's statements with respect to the duty of plan fiduciaries to vote proxies and describes the DOL's view of the legal standards imposed by sections 402(c)(3), 403(a), and 404(a)(1)(B) of part 4 of title I of ERISA on the use of written proxy voting policies or guidelines. The DOL encourages adherence to the guidance set forth in the rules and regulations in this interpretive bulletin.

K. Points of Interest

TSP Fund Balances and Returns

As of December 31, 2005, the largest portion of TSP investments was held in the C Fund. The chart below presents a summary of TSP investments held by the G, F, C, S, and I Funds on December 31, 2005, and the dollar changes in these balances from December 31, 2004.

Exhibit II-5

TSP Fund	Fund Balances December 31, 2005	% of Total	Increase (Decrease) in Fund Balances from December 31, 2004
G	\$66.61 billion	38.44%	\$ 7.76 billion
F	10.61 billion	6.12%	0.50 billion
C	68.90 billion	39.76%	3.20 billion
S	14.11 billion	8.14%	4.07 billion
I	13.06 billion	7.54%	5.74 billion
Total⁷	\$173.29 billion	100.00%	\$21.27 billion

Source: Federal Retirement Thrift Investment Board internal reports.

The table below compares the TSP Fund returns for the G, F, C, S, and I Funds for the 12-month periods ending December 31, 2005, 2004, and 2003.

Exhibit II-6

	Rates of Return on TSP Investment Funds		
	<u>12 Months Ended December 31, 2005</u>	<u>12 Months Ended December 31, 2004</u>	<u>12 Months Ended December 31, 2003</u>
G Fund	4.49%	4.30%	4.11%
F Fund	2.40%	4.30%	4.11%
C Fund	4.96%	10.82%	28.54%
S Fund	10.45%	18.03%	42.92%
I Fund	13.63%	20.00%	37.94%

Source: Federal Retirement Thrift Investment Board, Thrift Savings Plan Fact Sheets.

⁷ The balances of the L Funds are included in the underlying five funds (i.e., G, F, C, S, and I).

BGI's Outsourcing of its Custodial and Fund Accounting

BGI outsources its custodial and fund accounting processes to IBT. IBT is an independent company that specializes in investment custodial services, and offers integrated accounting and custodial management systems to its customers that provide for fund accounting in a daily valuation environment. IBT provides BGI with full fund accounting, settlement, wire transfer, and valuation services in daily, mid-month, and monthly fund environments. IBT's operations for BGI are primarily conducted in Sacramento, California.

BGI has established an Investment Relationship Management monitoring function to oversee services provided to and performed by service providers, primarily focused on managing the IBT relationship and ensuring that BGI's personnel continue to receive routine reporting on custodial and fund accounting processes, necessary to manage their business.

We reviewed IBT's "Independent Service Auditors' Report on Controls Placed in Operation and Tests of Operating Effectiveness" for the periods ended October 31, 2005, 2004, and 2003 and noted no instances of material internal control weaknesses.

BGI's Data Center Operations and Service Continuity Plans

BGI's U.S.-based data center operations are located in Rancho Cordova and San Francisco. The Rancho Cordova data center serves as the primary production facility for computer processing, while the San Francisco data center provides additional trade floor production services and backup support.

Data center services are separated into three functional areas: computer operations, operational support, and technical support. Computer operations services include console, tape, data load and feed, and printer operations. Operational support services include secondary and after-hours help desk, production control, job scheduling, problem and change management, disaster recovery, record retention, and data network support. Technical support services include operating systems software support, environmental software product support, performance management, job accounting and capacity planning, and system level security administration. Physical security and facilities management of the Rancho Cordova and San Francisco data centers are the responsibility of BGI's Global Real Estate group.

BGI maintains business continuity plans (BCP) and disaster recovery plans (DRP) necessary to facilitate the continuity of business, particularly in the case of any natural or man-made disaster or crisis. Additionally, BGI contracts with outside vendors to perform security testing (e.g., network penetration tests) twice a year.

Audit Results and Regulatory Reviews

Barclays PLC, its subsidiaries, and joint venture operations are subject to examinations and audits by government regulatory agencies, independent public accountants, and internal auditors. From February 2003 through December 2005, the following examinations and audits related to BGI were completed:

- PricewaterhouseCoopers LLP -- financial and internal control audits of the Barclays Collective Trust Funds for the years ended December 31, 2003 and 2004;
- PricewaterhouseCoopers LLP -- financial audit of Barclays Global Investors, N.A. for the years ended December 31, 2003 and 2004;
- PricewaterhouseCoopers LLP -- report on the processing of transactions for the years ended December 31, 2003 and 2004;
- Barclays Internal Audit Group -- various reviews of internal controls;
- The Office of the Comptroller of the Currency, start date January 2, 2003 (examination as of December 31, 2003); and
- The Office of the Comptroller of the Currency, start date January 2, 2004 (examination as of December 31, 2004).

The EBSA Fiduciary Oversight program was not designed to duplicate procedures already performed by BGI's independent and internal auditors. Therefore, we reviewed the related reports to determine the extent to which that work met EBSA's objectives, rather than duplicating those procedures. We also reviewed BGI's independent and internal auditor work papers to meet certain EBSA engagement objectives objectives. No significant matters were noted as a result of the examinations and audits listed above.

III. FINDINGS

We reviewed the Thrift Savings Plan (TSP) Fixed Income Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and International Stock Index Investment Fund (I Fund) investment management operations at Barclays Global Investors, N.A. (BGI) for the period February 2003 through December 2005. Overall, we conclude that BGI has controls in place related to the F, C, S and I Fund investments to ensure investment transactions are processed accurately and timely and the Board's Staff receives timely transaction reports. In addition, the BGI funds in which the F, C, S and I Funds are primarily invested and the related operations comply satisfactorily with the Federal Employees' Retirement System Act of 1986, as amended; applicable individual prohibited transaction exemptions (IPTE) and prohibited transaction class exemptions (PTCE); and with applicable contract provisions between the Board and BGI. Finally, we conclude that BGI votes proxies of the C, S, and I Funds in accordance with its stated guidelines and with U.S. Department of Labor rules and regulations.

We noted no prior recommendations. The current engagement produced no recommendations.

We identified two exceptions that do not relate to fundamental controls and that occurred prior to the revision of BGI's Policy and Procedure Manual, *U.S. Transition Management*, revised December 2005. Because this revised policy and procedure manual adequately addresses the exceptions identified, these exceptions do not require recommendations at this time. These exceptions are reported herein for informational purposes only.

EXCEPTIONS NOT REQUIRING RECOMMENDATIONS

Notification of Large Pension Plans Participating in Cross-Trade

Under IPTE 92-11, large pension plan restructuring accounts (large plans) are permitted to cross trade with Index or Model-Driven Funds where a plan fiduciary provides authorization to restructure all or a portion of a large plan's assets into an Index or Model-Driven Fund, or to act as a trading advisor for a large plan's portfolio restructuring or liquidation. Among other requirements, IPTE 92-11 requires that "Fiduciaries of the Large Plan who are independent of Wells Fargo are, prior to any cross-trade transactions, fully informed of the cross-trade technique and provide advance written approval of such transactions. Within 45 days of the completion of

the Large Plan's portfolio restructuring program such fiduciaries shall be fully apprised in writing of the transaction results."

During our detailed cross-trade testwork, we selected 11 large pension plans that participated in a cross-trade with a TSP fund. For 2 of the 11 large plans selected, supporting evidence reflecting proof of delivery of the transaction results to the Large Plans' fiduciaries was not provided. For each of these plans, BGI did provide a copy of the transaction results and a copy of the internal log. The internal log is used by BGI to document the delivery date of the transaction results. We noted that the internal log indicated that the delivery dates for both plans occurred within 45 days of completion of the restructuring program. However, for the first exception, which related to a July 2003 cross-trade, no supporting documentation was provided to confirm that the delivery had been made. For the other exception, which related to an August 2005 cross-trade, we were told that the transaction results were hand-delivered to the fiduciary at a conference that both a BGI representative and the fiduciary were attending. Supporting documentation was provided for the delivery of the transaction results to the BGI representative at the hotel where the conference was held. However, no evidence could be provided to support that the transaction results were delivered to the fiduciary. The delivery date to the hotel per the supporting documentation occurred within 45 days of completion of the restructuring program.

BGI's Policy and Procedure Manual, *U.S. Transition Management*, revised December 2005, stipulates that for deliveries occurring via FedEx, proof of delivery is retained within the FedEx system. In cases where the delivery of the report occurs by hand, an electronic version of the report should be sent to the client and the email should be retained to evidence delivery. The previous policy and procedure manual did not explicitly address maintaining supporting documentation of delivery or hand deliveries. The revised policy and procedure manual addresses the aforementioned exceptions and should help ensure that appropriate evidence is maintained to support the delivery of the transaction results to the fiduciary.

KEY PERSONNEL INTERVIEWED
(in alphabetical order)

While performing fieldwork, we interviewed the following key personnel regarding operations at Barclays Global Investors, N.A.:

A. Barclays Global Investors, N.A.

T. Scott Bray	Principal, Head of U.S. Risk Management
Chris Christensen	Managing Director, Head of Investment Process
Ed Corallo	Principal, Senior Portfolio Manager
Gabriel Cristou	Managing Director, Audit Director (Global General Auditor)
Scott Dohemann	Principal, Transition Manager
Patrick Dunne	Managing Director, Global Index & Markets Group
Abe Friedman	Principal, Director of Corporate Governance & Proxy Voting
Carl Gilchirst	Principal, Head of International Equity Management Group
Theda Haber	Managing Director, Deputy General Counsel / Head of U.S. Legal
Randall Hegarty	Principal, Counsel
Patrick Hoban	Chief Credit Officer, Global Credit & Market Risk
Jennifer Holmes	Principal, Securities Lending Product Control Manager
Mark Hoog	Associate, Securities Lending Product Services Supervisor
Steven Jhun	Principal, Supervisor
Joseph Masri	Principal, Head of Global Fixed Income Risk Management
Bruce McDougal	Principal, Senior Counsel
Terri Paris	Managing Director, Chief Operating Officer, Global Securities Lending

KEY PERSONNEL INTERVIEWED, CONTINUED

Regina Rogers	Associate, Operations & MI Manager
Amy Schioldager	Managing Director, Global Index & Markets Group
Alan Sclafani	Principal, Senior Market Risk Analyst
Michael Silver	Principal, Senior Counsel
Rochelle Siote	Principal, Head of U.S. Client Relationship Support
Craig Squires	Managing Director, Global IT Product Head
Lee Sterne	Principal, Senior Portfolio Manager
Kathleen Taylor	Managing Director, U.S. Institutional Business
Lois Towers	Principal, U.S. Compliance Officer
Matthew Tucker	Principal, Head of Enhanced/ Index Fixed Income Strategy

B. PricewaterhouseCoopers

John Hildebrand	Assurance Partner
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C. U.S. Department of Labor, Employee Benefits Security Administration—Washington, DC

Fil Williams	Pension Law Specialist, Office of Regulations and Interpretations
Brian Buyniski	Pension Law Specialist, Office of Exemption Determinations

D. Federal Retirement Thrift Investment Board – Board's Staff

Tracey Ray	Chief Investment Officer
Bill Jacobson	Financial Analyst

KEY DOCUMENTATION AND REPORTS REVIEWED

Department of Labor Documents:

Thrift Savings Plan Fiduciary Oversight Program, U.S. Department of Labor, Pension and Welfare Benefits Administration - Volumes I, II, and III; dated October 1, 2002

Federal Retirement Thrift Investment Board Documents:

TIB-01-C-02, Contract for Investment Management and Custodian Services for the C Fund, effective May 1, 2001 and related contract modifications

TIB-01-C-03, Contract for Investment Management and Custodian Services for the F Fund, effective May 1, 2001 and related contract modifications

TIB-99-C-01, Contract for Investment Management and Custodian Services for the I Fund, effective May 1, 2000, and related contract modifications

TIB-99-C-02, Contract for Investment Management and Custodian Services for the S Fund, effective May 1, 2000, and related contract modifications

Thrift Savings Plan Participant, Account Balances as of December 31, 2004 and 2003

Thrift Savings Plan, Fact Sheet, Rates of Returns for the Previous 5 Years for the G, F, C, S, and I Funds as of December 31, 2005

Reports:

Barclays Global Investors, Collective Trust Funds for Employee Benefit Trusts, Report on Audits of Financial Statements for the years ended December 31, 2003 and 2004, audited by PricewaterhouseCoopers LLP

Barclays Global Investors, N.A., (a wholly-owned indirect subsidiary of Barclays Bank PLC), Consolidated Financial Statements, December 31, 2004 and 2003, audited by PricewaterhouseCoopers LLP

Barclays Global Investors, SAS 70 Report, Report on the Processing of Transactions, years ended December 31, 2004 and 2003, PricewaterhouseCoopers LLP

Institutional Shareholder Services, Inc., Proxy Analysis quarterly reports issued during the 35-month period of February 1, 2003 through December 31, 2005

Investors Bank & Trust (IBT), SAS 70 Report, years ended October 31, 2005, 2004 and 2003

BlackRock Solutions, SAS 70 Report, years ended September 30, 2005 and 2004

The Office of the Comptroller of the Currency, start date January 2, 2004 (examination as of December 31, 2004).

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

The Office of the Comptroller of the Currency, start date January 2, 2003 (examination as of December 31, 2003).

Barclays Global Investors Internal Audit Group Reports:

Cross-Trading – U.S.	February 21, 2003
U.S. Equity Index Portfolio Management	February 21, 2003
Global Index and Markets	
Securities Lending – U.S.	April 11, 2003
Global Index and Markets Group	
BGI/IBT Conversion Program – U.S.	May 1, 2003
Cross-Trading – U.S.	October 21, 2003
Trading – U.S.	November 14, 2003
Securities Lending – U.S.	December 5, 2003
Data Backup – U.S.	January 22, 2004
U.S. Compliance	February 13, 2004
Sarbanes-Oxley Program Audit Memo	April 30, 2004
Third Party Service Providers	July 28, 2004
Database Administration	August 20, 2004
U.S. Client Relationship Support	August 26, 2004
Internet Infrastructure – U.S.	August 31, 2004
Cross-Trading – U.S.	August 31, 2004
U.S. Equity Trading	September 30, 2004
U.S. Fixed Income	September 30, 2004
U.S. Securities Lending	December 13, 2004
Global Index and Markets Group	
U.S. Equity Index Portfolio Management	March 24, 2005
Transition Services	April 29, 2005
Cross-Trading – U.S.	April 29, 2005
Cash Management – U.S.	August 15, 2005
Bank Secrecy Act/ Know Your Customer/	November 14, 2005
Anti- Money Laundering	
UNIX Administration	December 30, 2005

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

Barclays Global Investors Internal Documents:

Securities Cross Reference Report, Equity, US Debt, EAFE, and Equity Extended Index Funds; as of December 31, 2005, 2004, and 2003

Equity Index Fund, Historical Performance Analysis; as of December 31, 2005, 2004, and 2003

U.S. Debt Index Fund, Historical Performance Analysis; as of December 31, 2005, 2004, and 2003

EAFE Index Fund, Historical Performance Analysis; as of December 31, 2005, 2004, and 2003

Extended Market Index Fund, Historical Performance Analysis; as of December 31, 2005, 2004, and 2003

Barclays Global Investors, US Debt Index Fund, Portfolio Profile; as of December 31, 2005

Barclays Global Investors, Loan Positions by Account Report for the Equity Index Fund; dated December 31, 2005 and 2004

Barclays Global Investors, Loan Positions by Account Report for the U.S. Debt Index Fund; dated December 31, 2005 and 2004

Barclays Global Investors, Loan Positions by Account Report for the EAFE Index Fund; dated December 31, 2005 and 2004

Barclays Global Investors, Loan Positions by Account Report for the Extended Market Index Fund; dated December 31, 2005 and 2004

US Compliance Report, Monthly Status Reports February 2003 through December 2005

Barclays Proxy Voting Reports from February 1, 2003, through December 31, 2005

Proxy Voting Guidelines - U.S. Securities, Canada Limited, and Non-U.S. Securities

Monthly Management Fee Invoices from Barclays Global Investors to the Federal Retirement Thrift Investment Board for February 2003 through December 2005

Barclays Global Investors, Federal Employees Thrift Savings Plan – Fund C, F, S, and I Transaction Summary Reports; February 1, 2003 through December 31, 2005

Barclays Global Investors, Federal Employees Thrift Savings Plan – Fund C Monthly Account Balances, February 2003 through December 2005

Barclays Global Investors, Federal Employees Thrift Savings Plan – Fund F Monthly Account Balances, February 2003 through December 2005

Barclays Global Investors, Federal Employees Thrift Savings Plan – Fund I Monthly Account Balances, February 2003 through December 2005

Barclays Global Investors, Federal Employees Thrift Savings Plan – Fund S Monthly Account Balances, February 2003 through December 2005

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

2003, 2004, and 2005 Internal Audit Plans

Global Credit Group, Policies and Procedures Manual, December 2005

Global Credit Group, Counterparties Credit Exposure, January 2006

Guidelines for Short Term Fixed Income Funds for Securities Lending Cash Collections

Barclays Global Investors, Transition Services Policy and Procedures Manual; dated December 2005

Legal Group Training Schedule for the period of February 1, 2003 through December 31, 2005

Internal Audit – 2005 Audit Manual

BGI Publication - Information About BGI: *16 Things You Should Know*, December 2005

BGI Publication - *Managing ERISA Assets: A Guide to ERISA Exemptions Used by BGI*, December 2005

U.S. Compliance Matrix, 2004 and 2005

U.S. Compliance Program, revised July 2004; revised August 2005

Report of Future Positions for the Equity Index, US Debt Index, EAFE Index, and the Extended Market Index, as of December 31, 2005 and 2004

Laws and Regulations:

Federal Employees' Retirement System Act of 1986, and Related Amendments

Department of Labor Individual Prohibited Transaction Exemption 92-11

Department of Labor Prohibited Transaction Class Exemption 81-6

Department of Labor Prohibited Transaction Class Exemption 82-63

Department of Labor Individual Prohibited Transaction Exemption 2000-30

Department of Labor Individual Prohibited Transaction Exemption 2002-30

Department of Labor Individual Prohibited Transaction Exemption 2002-46

U.S. Code of Federal Regulations, Title 29, Chapter XXV, Part 2509, Interpretive Bulletins relating to the Employee Retirement Income Security Act of 1974

ENTRANCE AND EXIT CONFERENCE ATTENDEES

A general entrance conference, covering the entire FY 2006 TSP audit plan and proposed schedule, was held on January 12, 2006, with the Board's Staff. Attendees were as follows:

A. Federal Retirement Thrift Investment Board – Board's Staff

Jim Petrick	Chief Financial Officer
Penny Moran	Director, Office of Benefit Services
Mark Hagerty	Director, Automated Systems
Anne Beemer	Senior Benefits Program Specialist, Office of Benefit Services
Bill Jacobson	Financial Analyst
Gisele Goethe	Training Manager, Office of Benefit Services

B. Department of Labor, Employee Benefits Security Administration

William Bailey	Senior Auditor, FERSA Compliance
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C. KPMG LLP

Heather Flanagan	Partner
Derek Thomas	Manager
Mandy Belyea	Senior
Greg Ruck	Computer System Analyst

ENTRANCE AND EXIT CONFERENCE ATTENDEES, CONTINUED

An entrance conference covering TSP index funds' management operations at Barclays Global Investors, N.A., was held on January 30, 2006, with BGI personnel and certain Board's Staff. Attendees were as follows:

A. Federal Retirement Thrift Investment Board – Agency's Staff (via conference call)

Anne Beemer	Senior Benefits Program Specialist, Office of Benefit Services
Bill Jacobson	Financial Analyst

B. Barclays Global Investors, N.A.

Theda Haber	Managing Director, Deputy General Counsel / Head of U.S. Legal
Randall Hegarty	Principal, Counsel

C. KPMG LLP

Heather Flanagan	Partner
Derek Thomas	Manager
Mandy Belyea	Senior

ENTRANCE AND EXIT CONFERENCE ATTENDEES, CONTINUED

An exit conference was held July 25, 2006, with the Board's Staff. Attendees were as follows:

A. Federal Retirement Thrift Investment Board

Jim Petrick	Chief Financial Officer
Anne Beemer	Senior Benefits Program Specialist, Office of Benefit Services
Bill Jacobson	Financial Analyst

B. Department of Labor, Employee Benefits Security Administration

William Bailey	Senior Auditor, FERSA Compliance
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C. KPMG LLP

Heather Flanagan	Partner
Derek Thomas	Manager
Mandy Belyea	Senior